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## Sweden

## Wine

## Annual

## 2006

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**Report Highlights:**

Table wine consumption continued to increase in Sweden in 2004, although Systembolaget's monopoly wine retail sales dropped for the first time in many years. New World wines are gaining market share at the expense of wines from traditional European wine countries. Good market opportunities exist for U.S. quality wines, as the lower dollar exchange rate now makes it possible to compete with other New World wines.

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## Executive Summary

Table wine consumption continues to increase steadily in Sweden and has more than doubled since 1970. In 2004, wine consumption accounted for 38% of the total alcohol consumption in Sweden. EU products still dominate, but are losing market share to New World wines. Good market opportunities exist for quality wines as tastes and knowledge become more sophisticated. After several years of declining sales, mostly due to the strong dollar, U.S. exports are on the rise again. In 2004, U.S. wine exports to Sweden increased to US\$ 8 million from US\$ 6.7 million in 2003.

Retail sales of wine and liquor in Sweden continue to be restricted to a government agency, Systembolaget. Systembolaget handles all over-the-counter sales of wine, spirits, and full-strength beer through some 400 liquor stores throughout Sweden. The Government of Sweden (GOS) managed to retain the retail monopoly despite its accession to the EU in 1995, but had to relinquish its monopoly on importing, wholesaling, production and exporting of wines and spirits. With the dissolution of the import monopoly, more and more restaurants and caterers have started to import directly.

Sweden retains one of the most restrictive alcohol regimes in Europe, but in the past few years the rules have been challenged as Sweden is under pressure from EU harmonization requirements. Consequently, Sweden has been forced to increase private alcohol import quotas and reduce the tax on wine. The EU is pushing the GOS to further reduce taxes as the Commission still maintains that the tax scheme disadvantages imported wine. Also, Sweden has been taken to the European Court of Justice over its ban on individual purchase of wine via the Internet.

Systembolaget's monopoly retail sales have been falling steadily since Sweden raised the limit on private alcohol imports on January 1, 2004. The new quota allows Swedes to buy much cheaper alcohol from neighboring countries. The situation has been aggravated by several other developments in the region including the May 1, 2004 EU enlargement which added new Member States including Poland and the nearby Baltic States where alcohol sells at a fraction of the Swedish price. In addition, Finland and Denmark have also reduced their tax on alcohol.

The GOS has traditionally favored high taxes on alcohol for public health reasons. However, the Sweden is now facing a dilemma. If taxes are cut to meet the competition, Sweden could consequently face the possibility of increased alcohol consumption. If taxes are not cut, Systembolaget's retail sales could continue to decline, cross-border trade would continue and illegal resale would persist. On March 16, 2005, the Government's own "alcohol investigator" proposed a 40% tax cut. A final decision has not been made, but a cut is likely to come.

Advertisements for alcoholic beverages were prohibited in Sweden until February 2003 when a verdict by the Swedish Market Court cleared the way for alcohol advertising in Swedish newspapers and magazines. Subsequently, the Swedish Government passed new legislation banning advertisements for alcoholic beverages stronger than 15 percent by volume. A new strict law on alcohol advertising came into force on January 1, 2005.

Following a three-year investigation into the bribery scandal within Systembolaget, the first verdict against 18 Systembolaget store managers was announced on December 19, 2005. The 18 store managers suspected of accepting bribes from suppliers were fined between US\$ 375 and US\$ 2,500. This was the first of five trials regarding the bribery scandal at Systembolaget. In total, charges have been brought against 77 Systembolaget employees and 15 employees of three different suppliers.

Average Exchange Rate 2004: US\$ 1 = SEK 8.07

Average Exchange Rate 2005: US\$ 1 = SEK 7.46

## Production

Sweden does not traditionally produce wine, although Sweden was officially designated a wine-producing country by the European Commission in 2000. There are however, some Swedish producers who work with imported grape must. Furthermore, a few farmers have started to grow grape vines for winemaking, although the climate in Sweden is not considered suitable for viniculture.

## Consumption

For the first time in many years, Systembolaget's (retail) wine sales dropped, from 136 million liters in 2003 to 133 million liters in 2004. However, the reduction in domestic sales is not a result of lower consumption of wine in Sweden. The main reason is the increased cross-border shopping due to new private import quotas and lower alcohol excise duties in neighboring countries. Starting January 1, 2004, Swedes are allowed to bring home 90 liters of wine from other EU countries.

**Table 1. Swedish Private Alcohol Import Quotas (liters)**

Year	2001	2002	2003	2004
Spirits	1	2	5	10
Wine	26	26	52	90
Beer	32	32	64	110

Please note that the consumption and sales estimates below are based on Systembolaget's sales figures, i.e. retail sales only. In 2004, Systembolaget's sales accounted for about 64% of total wine sales in Sweden.

The interest in quality wine continued to increase at the same time as the demand for bag-in-box wines continued on an upward trend, but not at the same rate. In 2004, the bag-in-box and other soft packaging formats accounted for a remarkable 61 percent of Systembolaget's total wine sales compared to 57 percent in 2003. Bag-in-box wines are very popular among Swedish consumers who find them particularly convenient for summer activities such as picnics and boating excursions. Also, the bag-in-box format is appealing because it overcomes the reluctance attached to opening a bottle when all one wants is a single glass. Observers here report that because of this convenience, individuals are consuming wine more regularly.

Sales of red wine were down 2.1 percent from sales in 2003. Despite a decline of 15.4 percent, Spain is the biggest supplier of red wine with a market share of 20.8 percent. Italy fell back by 25.4 percent and now has a market share of 18.7 percent. Australia and South Africa show rises of between 35 and 40 percent, partly due to their bag-in-box sales. Bag-

in-box wines continue to increase their share, and accounted for 54 percent of red wine sales in 2004.

Sales of white wine fell by 7.2% during 2004, of which 49% was packed in bag-in-box. Germany continues to loose ground and had to step back in favor of Italy. Sales of Italian white wines account for the largest market share at 15.6% followed by Germany and South Africa.

Sales of strong beer (those beers exceeding 3.5% alcohol content) by Systembolaget dropped by 3.5% in 2004 to 173 million liters. Swedish brands accounted for 82 percent. Sales of beer in cans continue to increase and accounted for 82 percent. It is mostly the younger consumers who are increasing their beer consumption. Since 1996, prices for strong beer have declined by 30% due to a reduced beer tax. Sales of cider were down 12.9% from 2003.

Systembolaget's sales of spirits decreased by 13% in 2004 to 19 million liters from 22 million liters in 2003. The consumption estimate for hard liquor is based on Systembolaget's sales figures, but total consumption is actually much higher. Because of the very high domestic prices, Swedes take advantage of much cheaper alcohol in neighboring countries due to their reduced taxation. The increased private alcohol import quotas in 2004 have made it possible for Swedes to bring home practically an unlimited amount of alcohol from other Member States. In addition, illicit home distilling is widespread, and bootlegging is extensive. Reports estimate that the illegal alcohol trade costs Sweden about SEK 3 billion per year in taxes. Historically, vodka has been the most popular alcoholic beverage and Sweden is part of the world's "vodka belt". Now, however, Sweden is moving away from the vodka belt and more and more becoming a wine country.

There has been a noticeable change in consumption of medium-priced wines which indicates that the quality consciousness of consumers is increasing. In 2004, over 30% of wine sales were in the range of SEK 61 to 70. Wines over SEK 100 accounted for 5.0% of total sales compared to 3.9% in 2003. Retail pricing through the Systembolaget is uniform throughout Sweden, whereas restaurants and bars are free to set their own prices.

**Table 2. Systembolaget's Wine Sales by Price Category in 2004**

Price level SEK	Wines (excl. fortified wines)
Less than 40	0.3%
40-49	15.0%
50-59	24.9%
60-69	31.7%
70-79	13.6%
80-89	5.4%
90-99	4.1%
over 100	5.0%
Total	100%

Exchange Rate 2004: US\$ 1 = SEK 8.07

**Table 3. Systembolaget's Sales - Liter/Capita**

Year	Liquor	Wine	Strong Beer	Cider & Mixed Drinks
2000	3.2	16.1	19.6	1.8
2001	3.2	17.0	21.4	1.9
2002	3.2	18.6	23.3	2.3
2003	3.0	19.2	24.3	2.5
2004	2.6	18.7	23.3	2.3

**Trade**

Spain regained its position as Sweden's leading source of wine in 2004, closely followed by Italy. However, both countries experienced sales losses at the expense of the New World. Spain now controls about 18 percent of Sweden's table wine market followed by Italy, South Africa, France and Australia. Even though EU suppliers still dominate, wines from South Africa, Australia, Chile and the United States are gaining market share. In 2004, the New

World accounted for 36% of retail wine sales in Sweden, an increase of 13% compared to 2003.

Retail sales of U.S. wines increased in volume in 2004, and market share rose to 6.2% from 3.7% in 2003. Major reasons for the market share rise is the considerably lower dollar, which made it possible to compete with other New World wines. Lower-priced bottled wines are losing ground to bag-in-box wines. U.S. wine suppliers who can adjust to providing wine in this type of highly demanded packaging might find greater success in this market.

Please note that the table below shows Systembolaget's sales only and does not include wines for restaurants and duty free shops.

**Table 4. Systembolaget's Sales of Wines by Country (1,000 liters)**

Country	2002	2003	2004	Mkt Share 2004
Spain	31,439	27,454	23,996	18.0%
Italy	28,627	28,311	23,106	17.3%
South Africa	5,999	11,172	15,184	11.4%
France	18,487	18,639	15,069	11.3%
Australia	7,287	11,011	13,666	10.3%
Chile	12,165	12,586	12,527	9.4%
USA	4,345	5,110	8,329	6.2%
Germany	7,631	7,040	6,537	4.9%
Hungary	5,846	6,310	5,785	4.3%
Portugal	1,960	2,275	3,126	2.3%
Sweden	1,865	1,705	1,680	1.3%
Other	4,480	4,004	4,291	3.3%
TOTAL	130,131	135,708	133,296	100.0%

**Table 5. Import Trade Matrix – Table Wine 2204, 2205**

U.S. wine exports to Sweden increased in 2004 to US\$ 8 million, from US\$ 6.7 million in 2003, mostly due to the considerably lower exchange rate for the dollar.

<b>Country</b>	Sweden		
<b>Commodity</b>	Wine		
Time Period	CY	Units:	Metric Tons
Imports for:	2003		2004
U.S.	1,416	U.S.	1,623
Others		Others	
Italy	29,597		19,546
Spain	20,863		17,106
Denmark	21,272		16,173
South Africa	10,882		14,823
France	39,493		14,371
Chile	11,476		10,844
Germany	10,487		10,077
Australia	7,498		8,010
United Kingdom	2,251		2,691
Portugal	2,059		2,691
Total for Others	155878		116,332
Others not Listed	5,899		7,314
Grand Total	163193		125269

Source: UN Trade Data

Table 6. Average Import Price – Table Wine 2204, 2205

## Prices Table

<b>Country</b>	Sweden		
<b>Commodity</b>	Wine		
Prices in	SEK	per uom	Liter
Year	2003	2004	% Change
Dec	19.2	23.9	24%
Exchange Rate	SEK 7.72	Local Currency/US \$	
Date of Quote	1/19/2006	MM/DD/YYYY	

Source: Statistics Sweden

### Policy

In Sweden, the retail trade is separated into two different channels -- ordinary food stores and Systembolaget, the liquor store monopoly. Beer containing more than 3.5% alcohol and other beverages containing more than 2.25% alcohol may only be sold through



Systembolaget's liquor stores. Systembolaget does not import directly; purchases are done through Vin & Sprit or independent agents and importers.

Vin & Sprit, another state-owned company, was, until Sweden joined the EU, the only legal importer and distributor of wine, spirits and strong beer in Sweden. Since 1995, independent companies that have acquired a special license have also been eligible to import, produce, trade and distribute alcoholic beverages. This gives both the retail trade, (i.e., Systembolaget) and the restaurant and catering sector the right to freely choose a supplier. More and more catering and restaurant wholesalers have started to import and distribute alcoholic beverages. Today there are over 600 companies that have an import license for alcoholic beverages.

Because of Sweden's need to conform to more liberal EU regulations, Sweden's strict laws regulating alcohol sales have been challenged in recent years. Sweden has been facing EU demands on member states to impose equal tax on wine and beer and increase private alcohol import quotas.

Consequently, in 2001, the alcohol tax on wine was reduced by SEK 5 per liter. Sweden was formally asked by the European Commission to stop taxing wine, most of which is imported, at a higher rate than beer, most of which is produced locally. To avoid a lawsuit, the Swedish Government thus recommended a reduction in the wine tax. However, the EU has been pushing the Swedish Government to make additional tax reductions in as much as the excise tax on wine is still higher than the excise tax on beer. In October 2004, the European Commission decided to refer Sweden to the European Court of Justice over its tax discrimination against wine in comparison to beer. Sweden imposes a tax of SEK 22.08 a liter on wine, compared with only SEK 14.70 for beer.

A slash in alcohol taxes in neighboring Denmark and Finland, and the entry of nearby Estonia, Latvia and Poland into the EU, has drastically affected sales in Sweden as an increasing number of Swedes cross borders to buy cheap alcohol. The Swedish Government is losing massive revenue from the state monopoly, as domestic sales continue to decline. A government commission has recommended a 40% cut in liquor duties, but no final decision has been made.

**Table 7. The Swedish Alcohol Tax on Wines on January 1, 2005**

<b>Alcohol Content</b>	<b>Tax (SEK/liter)</b>
Not more than 2.25%	SEK 0.00
2.25% but not 4.5%	SEK 7.58
4.5% but not 7%	SEK 11.20
7% but not 8.5%	SEK 15.41
8.5% but not 15%	SEK 22.08
15% but not 18%	SEK 45.17
Liquor containing more than 22 percent alcohol by volume	SEK 501.41

Sweden adopted European Community directives on private alcohol import quotas when the country's exemptions from EU rules expired on January 1, 2004. When joining the EU in 1995, Sweden negotiated a temporary exemption from many of the European Union's more liberal alcohol laws. As of January 1, 2004, Swedish travelers are allowed to bring home practically an unlimited quantity of alcohol from other Member States.

However, under Swedish law, consumers are prohibited from using independent intermediaries to bring alcohol for their private use into Sweden from other EU countries. If Swedish consumers cannot themselves physically transport the product into the country, their only option is to request that Systembolaget bring it in on their behalf, which is time consuming and expensive.

In October 2003, the European Commission formally asked Sweden to lift the private import ban. In its reply, the GOS maintained that the ban on private imports of alcoholic beverages was in compliance with European law since it is an integral and non-discriminatory part of the Swedish state's retail monopoly for alcoholic beverages and since it is necessary for the protection of public health. The Commission believes that an individual residing in Sweden should not be precluded from purchasing products available on the market in other Member States and has thus, decided to bring Sweden before the European Court of Justice. The Commission believes that the ban represents a disproportionate obstacle to the free movement of goods in contravention of EC Treaty rules. A final decision has not yet been made.

The corruption allegations in October 2003 shook Swedes' confidence in Systembolaget. A total of 77 employees at Systembolaget were suspected of accepting bribes from suppliers pushing sales of certain brands. What started in the beginning of 2003 with a handful of store managers and a couple of suppliers being suspected of bribery, escalated quickly to the most extensive corruption scandal in Swedish history in terms of number of people involved. When the scandal extended to the headquarters level, independent investigators were appointed.

The case was turned over to the public prosecutor and the first verdict against 18 of Systembolaget's store managers was announced in December 2005. All 18 store managers suspected of accepting bribes were fined between US\$ 375 and US\$ 2,500. This was the first of five trials regarding the bribery scandal. The scandal has raised questions about the future of the monopoly – particularly because of the special consideration that the European Union had given to Sweden in allowing it to retain its government-owned retail monopoly.

In December 2005, Systembolaget celebrated its 50<sup>th</sup> anniversary with an advertising campaign to promote the benefits of the monopoly. Reportedly, Systembolaget has spent about US\$ 960,000 on this campaign to defend the retail sales monopoly in Sweden. The campaign was launched on four fronts. A letter to European President Jose Manuel Barroso was sent on November 18, 2005. A press release describing the public relations campaign was issued on November 21, 2005. On November 22, the website [www.DearMrB.se](http://www.DearMrB.se) was launched featuring "a short film showing the alcohol situation in Europe and how the Swedish retail monopoly operates and the effects of it." On the same day, an advertisement headlined, "Dear Mr. Barroso, Here's why you should seriously consider cutting down on drinking" was published in the Financial Times and some 70 Swedish daily and evening newspapers. The ad points out that more than 600,000 Europeans die of alcohol-related causes every year and the cost of alcohol-related problems for the EU as a whole is between 200 and 500 billion euros per year. (See GAIN Report SW5018)

Critics of Systembolaget have pointed out that the 50<sup>th</sup> anniversary campaign conveniently coincides with renewed efforts within both Sweden and the EU Commission to erode the monopoly's power. Over the next several months, the Swedish state monopoly will come under intense legal scrutiny on several fronts.

As a member of the European Union, EU regulations regarding customs tariffs and wine labeling are in effect in Sweden. Customs duties on wines from non-member countries are the same as in the rest of the EU, i.e. 13.1 euro per 100 liters for table wines, and 15.4 euro per 100 liters for fortified wines, or wines with an alcohol content between 13 to 15 percent.

On February 23, 2004, the European Commission published a set of amendments to the wine labeling regulation. In an effort to conform with its international commitments under the TRIPs Agreement, the EU has adopted new conditions for the use of traditional expressions on wine labels by third countries. More information is available in GAIN Report E24043.

On November 14, 2005, the European Council approved the US-EU wine agreement, marking the end of a first phase in ongoing trade discussions, which began in 1983. The Agreement addresses several key issues, and sets a framework to facilitate future wine trade between the United States and Europe. The agreement will enter into force as soon as both sides amend existing regulations with the purpose of complying with the different requirements of the Agreement. In order to avoid disruption of trade, the EU and the US signed an Interim Agreement in the form of an exchange of letters.

Please refer to the following website for more information on EU import and labeling rules: [www.useu.be/agri/usda.html](http://www.useu.be/agri/usda.html)

## Marketing

There is a potentially strong growth market for quality wines in Sweden. The considerably lower exchange rate for the dollar is fueling new interest in U.S. wines. Exporters to this market should consider strong market trends, such as bag-in-box and other types of soft packaging, and/or developing trend-setting campaigns. With the dissolution of the import monopoly, hotels, restaurants and caterers can import directly. The continuation of the retail monopoly still makes retail sales more difficult to develop, but the market is much more open and competitive now than it was before. Additionally, advertising of wines in magazines, newspapers and journals is now possible.

Until recently, direct advertising of alcoholic beverages has not been allowed in Sweden. In March 2001, the Swedish legislation was challenged by the Swedish food magazine Gourmet. The European Court of Justice upheld the view that the ban was an obstacle to the free movement of services within the EU. Sweden restricts alcohol advertising on public health grounds. The European Court, however, suggested this could be achieved with less restrictive measures and referred the matter back to a Swedish court to decide whether the ban was an appropriate measure for achieving Sweden's desired goal. In March 2002, the Stockholm District Court upheld Gourmet's right to publish alcohol advertisements.

The Swedish Consumer Ombudsman was unhappy with the ruling and appealed the decision to a higher court, the Swedish Market Court. A verdict from the Market Court on February 5, 2003 cleared the way for alcohol advertising in Swedish newspapers and magazines. The Court ruled that the Swedish ban on alcohol advertising was too intrusive to warrant an exception to European Union law. The decision was a heavy blow to Sweden's rigorous policies to restrict alcohol consumption on public health grounds. However, following the verdict, the Swedish Government immediately decided to ban the advertising of alcoholic

beverages stronger than 15 percent by volume. The new law came into force in May 2003. The Swedish Government prepared a new strict legislation on alcohol advertising that came into force on January 1, 2005. People are not allowed to appear in the advertisement, which is also required to include warning texts, and ads cannot target people under the age of 25.

The fact that no advertising has been allowed in public media has made journalists writing about wines in newspapers and magazines more influential than their colleagues in other countries. Wine writers' weekly or bi-weekly newspaper and magazine articles are very popular, and consumers act on the recommendations that are given in them. When a certain type of grape or country becomes fashionable, Swedish consumers tend to act upon these trends very rapidly. Systembolaget's monthly tests of "new products" are reported on in these reviews.

Another means of advertising is Systembolaget's monthly news magazine. This contains listings of the wines on Systembolaget's shelves and gives detailed information about the wine and the region in which it was produced. This information is stored in a database and is available for all wines listed in Systembolaget's official price list which is updated bi-monthly. In the December 2005 update, over 70 different U.S. wines were listed. The Systembolaget list can be accessed through its homepage at: [www.systembolaget.se](http://www.systembolaget.se).

In January 2001 the Wine Institute opened an information office in Stockholm. The Wine Institute promotes California wines through participating in wine exhibitions and tastings, developing programs for California winery tours, distributing promotional and information materials and engaging in other market development activities.

There are several active wine societies in Sweden which promote wines among their members, arrange wine courses, tastings, travel, and generally promote wine appreciation. The most notable is Munsankarna, which was formed 40 years ago. It has more than 10,000 members and has branches throughout Sweden. Another prominent wine society is Stockholm's Vinsällskap which is active in the Stockholm area. In addition, there are a number of small, private wine clubs. Importers also arrange small tastings. These smaller tastings are usually targeted at restaurant managers, wine journalists and publishers of food and wine magazines.

The major EU wine exporting countries, such as Spain, Italy and France, hold annual wine days in Stockholm. Third country wine-producing countries such as Australia, South Africa and Chile participate in most wine exhibits in Scandinavia through their wine boards and annually hold one-day wine exhibits at one of the major hotels in Stockholm.